

Message Text

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ACTION EUR-12

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SUBJECT: MILAN BANKERS VIEW US ECONOMIC POLICY WITH
CONCERN

1. SUMMARY. MILAN BANKERS SEE CONTINUING WEAK DOLLAR
AND WIDE EXCHANGE RATE FLUCTUATIONS NOT AS SIGNS OF WEAKNESS
IN TODAYS FLOATING MONETARY ORDER, BUT RATHER AS RESULT OF
CONFIDENCE CRUNCH OVER US'S ABILITY TO COME TO GRIPS WITH
ITS BALANCE OF PAYMENTS PROBLEMS. END SUMMARY.

2. THIS IS GENERAL VIEW WHICH EMERGED FROM SERIES OF
INTERVIEWS CONDUCTED BY ECON OFICER DURING LAST FEW WEEKS WITH
SENIOR MILAN BANKERS. MILAN, A GROWING EUROPEAN
BANKING CENTER (TEN US BANKS PRESENT), IS EVEN MORE
POWERFUL VOICE IN ITALIAN ECONOMIC AND MONETARY CIRCLES.
VIEWS OF TOP MANAGEMENT, THEREFORE, COUNT. HEADS OF BOTH
ITALIAN AND AMERICAN BANKS BASED HERE WERE LESS CONCERNED WITH INER-
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NATIONAL MONETARY SYSTEM THAN WITH ROLE US WAS PLAYING IN TODAYS
WORLD ECONOMY.

3. MOST BANKERS WITH WHOM WE TALKED AGREED THAT TODAYS SYSTEM
OF FLOATING EXCHANGE RATES MIGHT NOT KEEP EVERYBODY HAPPY ALL
THE TIME, BUT THAT IT WAS ONLY VIABLE ALTERNATIVE AROUND. FIXED
PARITIES WERE THING OF PAST, BUT CLEAN FLOAT CREATED TOO

MUCH HAVOC. MORE INTERVENTION TO SMOOTH ERRATIC FLUCTUATIONS
IN FLOATING SYSTEM WOULD PROVIDE BEST SYSTEM UNDER TODAYS
CONDITIONS.

4. STILL, BANKERS HERE THINK US MUST DO SOMETHING TO STABILIZE
IT CURRENCY. WHAT? ONE ITALIAN BANKER SAID, "IF YOU TRAVEL
ACROSS SWITZERLAND AND GERMANY AND THEN MAKE A TRIP TO THE US
THE RELATIVE STRENGTH OF THEIR CURRENCIES DOES NOT MAKE SENSE."
OTHER BANKERS AGREEING WITH THIS VIEW SAID THAT TREMENDOUS DOLLAR
OVERHANG MADE SPECULATION TOO EASY. IT WAS POSSIBLE THAT DOLLAR
WAS SLOWLY MOVING TOWARD MORE REALISTIC RATE. BUT IT WAS MORE
LIKELY THAT LACK OF CONFIDENCE IN US ABILITY TO CREATE
STRONG ECONOMIC POLICY WAS FEEDING SPECULATION. CONTINUED
GLOOMY NEWS ABOUT US'S HUGE TRADE DEFICIT WAS NOT
HELPING. NOR WAS ADMINISTRATIIONS INABILITY TO COME UP WITH
ENERGY POLICY.

5. "THE TIME WHEN A STATEMENT BY THE PRESIDENT WILL INFLUENCE
THE DOLLAR'S VALUE HAS NOT PASSED," SAID ELDERLY ITALIAN BANKER.
"WHAT PEOPLE NEED TO SEE IS ACTION." ANOTHER SAID BASICALLY
SAME THING. "GIVING PEOPLE A REASON TO BELIEVE THAT THE US
ADMINISTRATION IS MAKING MOVES TO CONTAIN ITS TRADE DEFICIT
AND ENERGY PROBLEMS WOULD DO MORE FOR THE DOLLAR THAN ANY
OTHER THING."

6. BUT WAS WAK DOLLAR HURTING ANYONE? NOT ITALIANS, RESPONDED
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OUR CONTACTS. WITH MOST OF ITS IMPORT
INVOICING DENOMINATED IN DOLLARS AND ITS EXPORTS MOSTLY IN
GERMAN MARKS, GENERAL DEVALUATION OF DOLLAR HAS HELPED
ITALY'S BALANCE OF TRADE, EXPLAINED SEVERAL. IN FACT
DOLLAR DEVALUATION HAS MASKED DEVALUATION OF LIRA. "SO,
DEEP INSIDE NO ONE IN ITALY IS TOO SAD ABOUT THE DOLLAR'S
WEAKNESS, AT LEAST NOT FOR THE TIME BEING," REMARKED HEAD
OF LARGE ITALIAN BANK.

7. NOR WERE EXCHANGE RATE FLUCTUATIONS HURTING LOCAL EXPORTERS
AND IMPORTERS. "MAYBE LIFE IS A LITTLE MORE DIFFICULT FOR THEM
THAN A FEW YEARS BACK," SAID AMERICAN BANKER. "BUT
ITALIAN TRADERS ARE LEARNING TO PROTECT THEMSELVES AND THE
VOLUME OF TRADE HAS ONLY INCREASED IN RECENT YEARS."

8. THUS ALTHOUGH LOCAL BANKERS DO NOT THINK THAT DOLLAR
DEVALUATION IS DAMAGING ITALY, THEY ARGUE THAT SOUND DOLLAR
IS NECESSARY TO ALLOW OTHERWISE WORKABLE INTERNATIONAL
SYSTEM TO FUNCTION. ESSENTIAL IN THEIR OPINION, IS RESTORING
CONFIDENCE IN USG ABILITY TO REIGN IN TRADE DEFICIT AND DEAL
WISELY WITH OTHER PRESSING PROBLEMS.FINA

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